

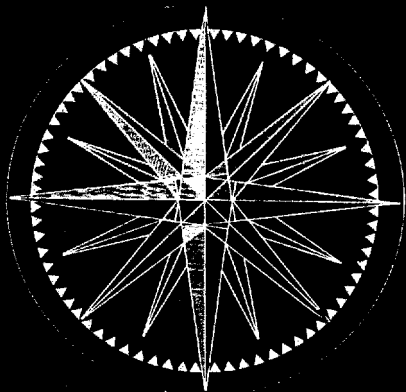
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Release 2006/09/28 : CIA-RDP79-00927A004000040004-2

12 April 1963

OCI No. 0275/63C

Copy No. 73



SPECIAL REPORT

OFFICE OF CURRENT INTELLIGENCE

PERSIAN GULF: WESTERN INTERESTS VS. ARAB NATIONALISM

CENTRAL INTELLIGENCE AGENCY

MORI/CDF

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12 April 1963

PERSIAN GULF: WESTERN INTERESTS VS. ARAB NATIONALISM

Arab nationalism in the Persian Gulf sheikdoms, while not immediately imperiling Western interests, poses a growing long-term threat. Fully independent Kuwait and the other sheikdoms which live under some degree of British protection are experiencing the early stages of a popular stirring for change. Although the gulf area now supplies a declining share of Western Europe's oil consumption, it still provides the bulk of Europe's requirements, and the amount shipped there continues to increase.

Oil and Foreign Investment

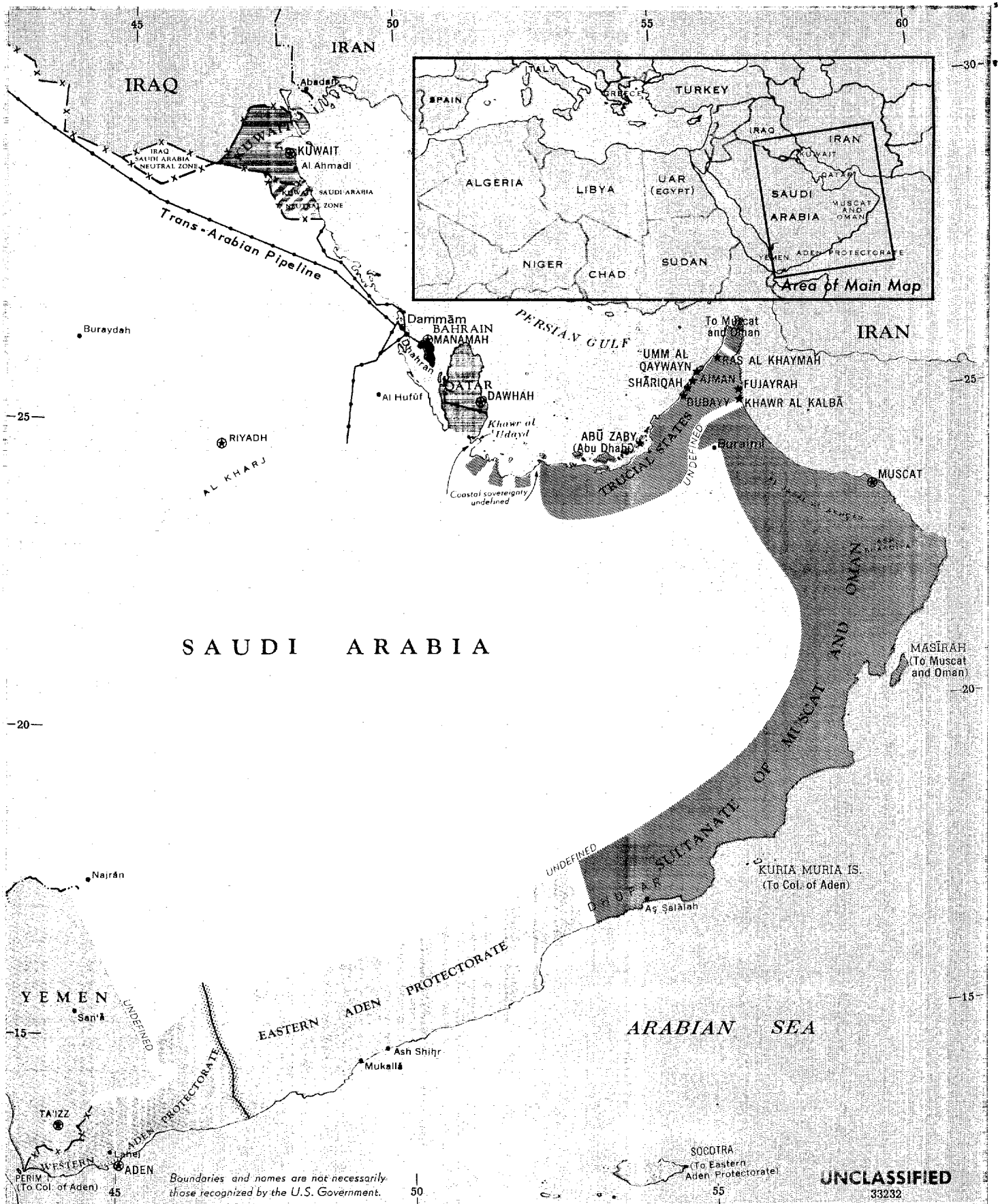
Western Europe's dependence on Persian Gulf oil will continue in the foreseeable future. Two thirds of its needs come from the gulf area now, as does nearly one third of US crude imports. Japan imports about three quarters of its oil from the area.

US companies have a multi-billion-dollar stake in this oil. Net oil income to the Persian Gulf states themselves in 1962 was \$1.626 billion--Kuwait \$521.3 million, Saudi Arabia \$431.7 million, Iraq \$266.3 million, Iran \$335 million, Qatar \$57 million, Bahrain \$13 million, and Abu Dhabi (Abu Zaby) \$1.9 million. A considerable portion of this income has been invested in the West--especially by Kuwait and Qatar. The Kuwaiti Government alone had over \$950 million invested abroad at the end of 1962, mostly in Britain. In addition large sums of private funds are invested overseas.

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This sheikdom's ruler, Shakbut ibn Sultan, is an ignorant, backward Bedouin who cannot be changed. He cares only for himself and his family, and sees in any change the seeds of a lessening of his authority. His oft-quoted philosophy is "Keep a dog hungry and he will follow you. Feed him and he will ignore you."

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Trucial States

Of the Trucial States only Dubayy (population 40,000) has a municipality; the others have no developed administrative machinery and the government is patriarchal. Foreign affairs and interstate relations are handled by the UK. Their combined population is around 100,000 and is principally Arab, but there is a considerable mixture of Baluchi, Iranian, Hindu, and Negro blood.

The most important of these States is Abu Dhabi, to which oil discoveries have given an importance all out of proportion to its population or size.

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some five years ago had the Sultan agreed to Omani peace overtures.

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No exploitable oil has been discovered in the Sultan's territories. Cities Service Oil Company has explored in Muscat's Dhofar Province for a number of years without success.

The cause of the Omani rebels has been espoused by the Arab League, and the issue has been raised at the United Nations. The rebels continue their activity on a small scale, supported by increments of land mines and other arms from the Arab states. The arms are generally supplied through Iraq, which sends them on to Dammam in Saudi Arabia, where the Saudis ship them to Oman. The Saudis also maintain a training camp for the Omani rebels. The rebellion could have been settled

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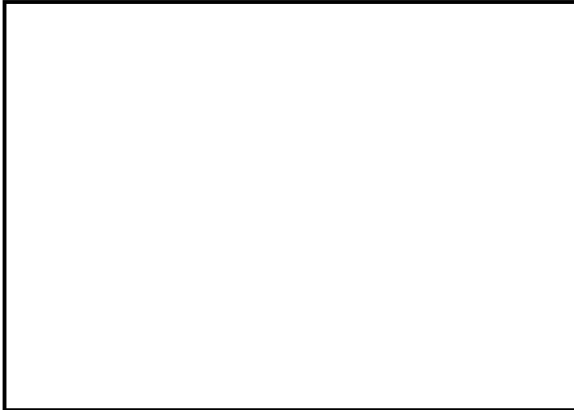
Bahrain

Britain's bastion in the gulf area is Bahrain. The

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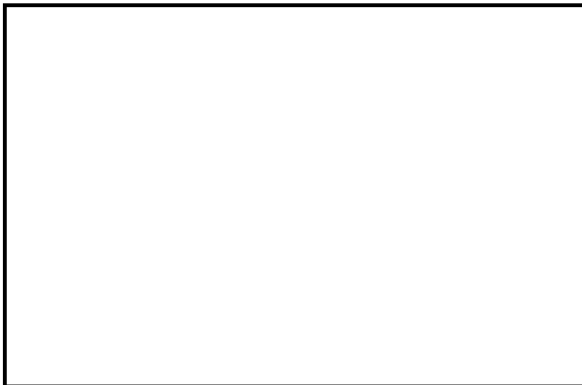
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The only oil company operating here is the Bahrain Petroleum Company, owned equally by Standard Oil Company in California and the Texas Company. Large quantities of Saudi oil are processed in Bahrain Petroleum's refinery, the third largest in the Middle East.

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Kuwait

Kuwait, like Muscat, is fully independent but ultimately relies on the British for protection. The sheikdom's main internal problem is that of

adapting the benevolent despotism of the ruling family to the more sophisticated requirements of a modern state. Kuwait's oil revenues have been used to organize a welfare state in which social services are extensive. There are free clinics, public education is provided for Kuwaitis through university level, and there has been extensive construction of hospitals, parks, and residential housing areas.

Moving with the times--albeit a bit slowly--the ruler instituted a National Assembly which was elected last January. Opponents of the ruling family gained a quarter of the seats.

Kuwait's main external problem is its relationship with Iraq, which claims Kuwait as a province. Although the claim was originally enunciated by the late Qasim, the new Iraqi regime maintains it, and an uneasy peace reigns between the two states. The USSR recently recognized Kuwait and may back its application for UN membership.

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In an effort to bolster its inter-Arab position and to reduce criticism of its large surplus wealth, Kuwait has set up a Fund for Arab Development

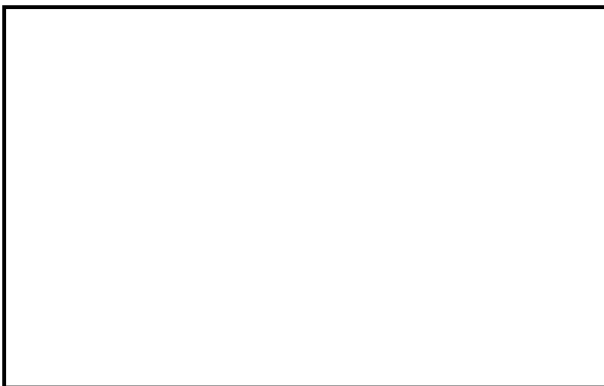
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with capitalization of \$140 million to help finance projects in the Arab world. The Kuwaitis have loaned \$56 million to Algeria, \$19.6 million to the Sudan, \$14 million to Lebanon, and \$21 million to Jordan. The Yemeni regime has requested economic assistance, and other Arab countries are also seeking aid.

Rise of Arab Nationalism

Aside from Kuwait, the growth of Arab nationalism in the gulf states has been slow--largely due to their innate backwardness, remoteness, and large non-Arab population. While supported by the Arab states, the Omani rebels' cause is basically a clash over autonomy for Inner Oman under the leadership of its religious leader, whose sect differs from that of the Sultan of Muscat.



The threat of the Arab nationalist movement in Kuwait

appears to have diminished considerably during the past several years. This, in large part, has been due to the ruler's reforms (especially the formation of the Assembly), to the increased stake that the Kuwaiti citizen has in the country's general prosperity, and to the ruler's own high personal prestige. With the likelihood of increased citizen participation in public affairs and the limiting of the ruling family's role, the prospects for an orderly transition appear good.

The course of events in Saudi Arabia is likely to affect nationalist prospects elsewhere in the gulf area. The Saudi monarchy's position has deteriorated during the past year as the result of the Yemeni revolution and the Iraqi and Syrian coups. Should the monarchy be overthrown by anti-royalist elements, increased agitation and subversion would ensue in the neighboring feudal states.

Communism has made little progress in the gulf sheikdoms. It is inhibited by the primitive organization of Arab society, by the absence of a large urban population and by the lack of Soviet diplomatic establishments. The growth of Arab nationalism and Nasir's militant anti-Communist posture are further roadblocks. (SECRET NO FOREIGN DISSEM)

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